

7618 PC DEPOT Corporation

Format Shift to Smart Life Partner (SLP) Stores with Premium Membership Services

February 28, 2015

JASDAQ

Key Points

- NTT East and NTT West have changed their business model to focus on wholesaling high-speed optical line services. Using their fixed optical lines, the Company, as a Fixed Virtual Network Operator (FVNO), started to provide optical Internet services in February. Although competition is difficult, it will leverage the Company's strength in services and greatly contribute to increasing the number of members and the added value of the services.
- The Company is evolving its store format from specialization in desktop and notebook computers and transforming its business model to a focus on Internet device service stores that combine merchandise and services. In terms of the profit structure, although income from the sale of hardware such as PCs has declined year after year, income from services, such as premium services and support services, is approaching 40%. Premium service is a scheme under which the Company asks users to pay a certain monthly use fee after they have bought a PC or smartphone and provides them with convenient service for content and maintenance. This has grown into the largest source of revenue, driving the business performance of the Company.
- The shift to Smart Life Partner (SLP) stores with premium membership services is accelerating. The number of stores will increase from 4 in the term ended March 2014 to 15 in the term ending March 2015. The Company will open new stores while transforming existing stores to SLP stores. It intends to further uncover service demand by shifting to SLP stores, and the number of SLP stores will increase to 28 in the term ending March 2016.
- For the term ended March 2014, ordinary income was 2.4 billion yen—the highest such figure in three years. Ordinary income will renew its peak, increasing to 3.2 billion yen for the term ending March 2015 (up 37% YoY) and to 4.1 billion yen for the term ending March 2016 (up 28% YoY) due to stock effects of service income, although sales have not shown remarkable growth. The ratio of ordinary income to net sales will reach 7.5% and ROE will also exceed 15% sooner or later.
- As smartphones and tablets are shaping new markets, the Company is cultivating service demand by offering diverse products while basing its operations on PCs as a platform. The Company's goals are an ordinary profit to sales ratio equivalent to 7% to 8%, and ordinary income of 4 to 5 billion yen, which are expected to be achieved. The next target will be ordinary income equivalent to 10% of total sales. The Company can also be expected to increase dividends. By providing services that other companies cannot imitate, the Company's shares will be even more favorably evaluated on the stock market.

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Company rating: A

Stock price (February 27, 2015): 926 yen

Market capitalization: 36 billion yen (38.928 million shares)

PBR: 2.38

ROE: 13.2%

PER: 17.9

Dividend yield: 0.9%

(except where otherwise indicated, figures are in millions of yen)

Fiscal year end	Net sales	Operating income	Ordinary income	Net income	EPS (in yen)	Dividend (in yen)
Mar. 2007	42,345	839	1,112	511	15.3	3.3
Mar. 2008	42,439	1,229	1,340	816	24.5	4.0
Mar. 2009	42,899	1,259	1,429	684	20.7	4.7
Mar. 2010	44,740	1,226	1,306	677	20.7	4.7
Mar. 2011	46,912	1,368	1,509	737	22.8	4.7
Mar. 2012	49,693	553	717	280	8.7	4.7
Mar. 2013	51,353	876	933	445	13.6	4.7
Mar. 2014	53,816	2,310	2,411	1,554	46.1	5.7
Mar. 2015 (forecast)	53,000	3,100	3,200	1,960	51.6	8.3
Mar. 2016 (forecast)	55,000	4,000	4,100	2,500	65.8	10.0

* Forecasts are based on financial results as of December 2014.

Total assets: 30,438 million yen

Net assets: 14,797 million yen

Equity ratio: 48.5%

BPS: 389.5 yen

NOTE: ROE, PER and dividend yield are based on the most recent forecast.

On October 1, 2013, the Company carried out a share split at a ratio of 1:100 and on January 1, 2015, at a ratio of 1:1.5. The EPS and dividends for the preceding terms have been revised accordingly.

Analysis by: Yukio Suzuki

(Chief Analyst, Belle Investment Research of Japan)

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Definition of Company rating: Qualitative evaluation based on criteria such as 1) management capabilities; 2) abilities to grow/maintain the business; 3) possibilities of downward revisions to earnings forecasts. The Company is expressed as a four-level rating where “A” means good, “B” means some degree of improvement is required, “C” means considerable improvement is required, and “D” means the state of the company is extremely grave.

1. Characteristics:

Evolution to stores specializing in Internet device service

A shift to a new format, with a corporate mission of bridging the digital divide

PC DEPOT gives priority to serving consumers who have difficulty handling digital network devices. To this end, the Company improves its services in a slow and steady manner. These efforts cultivate a service market, enabling the Company to realize its unique business model. President Nojima says that the Company will take up challenges but will not take excessive risks. The Company is always careful to expand business after experimenting and confirming its new course.

The Company is aiming to develop IT solution stores known as Smart Life Partner (SLP) stores, with which customers can maintain relationships over the long term. As well as being able to enjoy the convenience of a neighborhood PC superstore, users can have the Company solve the problems they experience when using desktops, notebooks, smartphones, the Internet and more.

The information and communication technology market is characterized by the continuous entry of new devices and services. Customers need support in order to maintain an IT environment that enables them to fully utilize the products and services they use. The Company provides services that enable users to make full use of the features of their desktops, notebooks, smartphones, tablets (multiple-function mobile terminals) and other devices. It carefully instructs users on how to use them and performs all necessary settings on their behalf.

These services are truly convenient. If consumers use products over a long period of time, in addition to the profit generated at the time they make the purchase, it is quite likely they will come to pay fees for services that make using such products more convenient. To make this happen, users must be satisfied with the convenience provided by the service.

The starting point for traditional retailers is merchandise, but as the Company is both a retailer and service provider, its starting point is also services. It will offer Internet-related services, mainly for devices, thereby building relations with its customers.

The Company generates profits in three ways: firstly, selling products; secondly, through technical fees for product repairs; and third, from monthly fees paid by members who receive ongoing support

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from the Company. Especially, the core of the Company's business is the support fees paid by its members, making it unique in the retail industry.

The Company considers its corporate social responsibility (CSR) to be to reduce the digital divide in society. To a certain extent, a digital divide arises between people who can use information and communication technologies, and those who cannot. It is not good for society as a whole when people who cannot use these technologies find themselves at a disadvantage. The Company intends to contribute to more convenient and enjoyable daily lives for these lives by supporting them in making the most of IT services. This support service is being provided by PC DEPOT, with its stores acting as a base for such services.

Business starts with personal computers

President Nojima used to work at Nojima, a consumer product mass retailer (Code No. 7419, listed on JASDAQ). The eldest son of Nojima Co.'s founder is currently president of that company, while Takahisa Nojima, his brother, is president of PC DEPOT. He was in charge of supervising stores and merchandise at Nojima Co., but once personal computers began to become popular, he decided to set out on his own and established an independent business. While Nojima is still one of the shareholders of Nojima Co., there is no business relationship between that company and PC DEPOT.

Nojima was 35 years old when he started his business, which is now in its 21st year. In the early days after the founding of his business, consumers wanted to buy PCs, but the devices were still beyond their budgets. Many people wanted to own their own desktop or notebook computer, but such hardware was still beyond their reach. In those days, only a limited number of people went all the way to Akihabara, a Tokyo district famous for consumer electronics and Japanese sub-culture, to buy personal computers. In contrast, Nojima went into business selling PCs in the same way that retailers in general deal with new merchandise. The Company performance steadily improved, and in 1999, five years after its establishment, it got listed on JASDAQ.

As the Internet era emerged in 2000, the Company entered into a new phase. At the time it was listed, it operated about a dozen stores with net sales of 15 billion yen, ordinary income of 800 million yen, and no debt.

At present, desktops, notebooks and related products are commonly sold at consumer electronics superstores. Also, there is a wide variety of specialist computer superstores. In the consumer electronics and computer superstore sectors, the Company ranks 9th in sales terms among the 11 main listed companies, but it exists in a slightly different field and does not compete directly with

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the biggest companies, such as Yamada Denki, Edion, and K's Denki. It should be noted that the Company seeks to emphasize its uniqueness.

Situation of store development

(Number of stores)

		Number of stores (at the end of February 2015)		
PC DEPOT	Directly-managed	37	PCs and related products for home users; technical support services Kanto region (Kanagawa, Tokyo, Chiba, Saitama, Shizuoka, Gunma, Tochigi and Ibaraki)	
	SLP stores	14		
	Subsidiaries	13		PC DEPOT Stores (former PC DEPOT Kyushu) (Kyushu, Chubu, Shikoku, Koushinetsu and Tohoku regions)
	FC	3		Shikoku, Chugoku and Kinki regions
	Subtotal	67		
PC DEPOT PC Clinic	Directly-managed	52	Operations inside the premises of other mass home electronics	
	FC	6		
	Subtotal	58		
Total		125		

NOTE: SLP stands for PC Depot Smart Life Partner stores, a new type of store, and franchise chain (FC) stores pay royalties.

In October 2014, the Company implemented direct management of two of its FC stores so that it could control them more effectively. The Company took them over from Hokuetsu K's Denki at the latter's request. It decided to place them under the control of PC DEPOT Stores, its subsidiary, in order to strengthen sales there. The annual sales of these stores amount to 1 billion yen or more, but the Company will be able to increase their profitability by improving their services.

Cooperation with K's Denki

When developing its PC DEPOT stores, which are comprehensive specialist computer retailers, the Company allowed K's Denki stores, which are operated by K's Holdings Co. (Code No. 8282), to become PC DEPOT franchisees. K's Denki was the second PC DEPOT franchisee. It was beneficial for both companies, in that a consumer electronics superstore began to deal with PCs.

The Company does business in cooperation with K's Denki because, according to Takahisa Nojima, management concepts of the two companies are quite similar and he feels much empathy with Shuichi Kato, Chairman and CEO of K's Holdings Co. The Company focuses on basically being a chain store operation that is easy for customers to use, for example, offering self-service sales apart for parts and offering discounts for paying in cash instead of points cards.

From the very start, Mr Max Co. (who run general discount stores) and Kitamura Co. (specializing in cameras) also became PC DEPOT franchisees. However, as major operators became dominant in the consumer product mass retailer format, general discount stores found it difficult to sell PCs. FC

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stores of Mr Max Co. were bought by the Company and became its subsidiary (the present PC DEPOT Stores) by 2010.

Converting franchises to directly-managed stores

Aside from PC DEPOT franchises, PC DEPOT PC Clinics, which are franchise outlets providing technical services, were established as concessions inside consumer electronics superstores. PC Clinics successfully operated in many of K's Denki stores, and then the franchise was expanded.

At present, there are 51 directly-managed PC DEPOT stores (including 14 SLP stores), 13 stores outside the Kanto region run by the PC DEPOT Stores Co. subsidiary, and 3 franchise stores, for a total of 67 stores. In addition, there are 52 directly-managed PC Clinics, and 6 franchise stores. As such, the Company currently operates 125 stores.

PC Clinic was operated mainly by FC stores until five years ago, but the Company transformed the FC stores to directly-managed stores. The Company and K's Denki agreed that direct management would be more effective for enhancing the service functions of the stores, and so the Company acquired these franchised stores. Currently, the Company operates directly managed PC Clinics inside K's Denki stores.

Ongoing Web business

EJWORKS Co., a PC DEPOT subsidiary, is engaged in the IT solution business and has lines of business that include internet service provision and Web content creation. The Internet services market started to expand from around 2000 onward. However, this market has matured and a process of natural selection began among internet service providers. The Company is acquiring small-to-midsize providers and to maintaining their customer-facing services. Customers would experience a seamless transition as they would keep their original email addresses.

Moreover, the Company has recently been utilizing this subsidiary as a support team for its content development and has come to attach more importance to it. The idea is to position it as a new support base for development.

The Company has made good effective and flexible use of part-time workers, and it has hired some of them as regular employees.

At the end of December 2014, in addition to 776 regular employees, 1,333 part-timers (on an 8-hour shift basis) were working for the Company. Seven categories of tasks are assigned, including operations (cashiers and baggers), attending to customers (customer-service personnel), and clinic services (preventative and recovery services); workers are trained to handle the basic tasks involved

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in one category in one week. They carry walkie-talkies with them in the store in order to help each other by sharing information, which allows them to ensure a high level of customer satisfaction. Many part-timers have worked for the Company for years, and they are often given the chance to become full employees.

2. Strength:

Profit structure changed into one where services also generate revenue

Specializing in PC-related technical services, keeping the leading position in the industry

The Company is strong in Japan's Kanto region and covers 90% of the population there. Consumers who want to make use of PC DEPOT support services will find there is one within reasonable travelling distance. Consumers who buy a desktop or notebook can have a Wi-Fi router set up for them at the store, and can start using their new computer as soon as they get home simply by plugging it in. This saves them from having to do the initial setup themselves. Smartphones also can connect to these Wi-Fi routers. If customers have a problem, they can call the Company's call center and get immediate attention. Users can obtain all these services just by paying a monthly fee. This service provides users with genuine reassurance and convenience.

The Company leads the industry in PC repairs and maintenance services. Moreover, the revenue generated by these services has increased by more than 20% annually, and as such are showing rapid growth. Although the Company is in 7th or 8th place in terms of number of PCs sold, it is characterized by its services.

The Company has achieved a unique presence in its competition with consumer electronics superstores over the past decade. It has survived well in local competition as a computer specialist, although it could not compete against major companies in terms of total sales volume. Under these circumstances, the Company did not overextend itself when opening new stores. It decided, however, to become a customer-orientated IT solutions company, by striving to improve its services, instead of increasing the sales numbers for desktops, notebooks and other hardware. The Company markedly changed its tack to follow this direction in 2005. This was the second turning point for the Company since it was founded.

Providing solutions in combination with various services is key. The Company provides telecommunication services using EMOBILE's network as an MVNO (Mobile Virtual Network Operator). Moreover, when members subscribe to the Company's premium services, they can get

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any support they need: maintenance, call-center services, anti-virus support, and a “full installation” service for when customers replace old PCs.

One of the Company’s strengths is this lineup of original services it has developed and runs. No other PC shop is capable of delivering technical services, especially data recovery, as speedily as PC DEPOT. The competition simply cannot match the level of service that the Company’s provides.

Trend in constituent ratios of sales

(% , millions of yen)

	2009.3		2010.3	2011.3	2012.3	2013.3	2014.3	
	Sales	Constituent ratios	Sales					
Goods sales	35,572	82.4	78.2	75.8	72.3	69.0	66.9	35,984
PCs and peripherals	24,375	58.5	56.9	52.0	46.5	46.4	42.7	22,981
Accessories, supplies, and software	6,554	14.6	15.0	13.9	12.6	12.1	10.8	5,724
Used items and others	4,643	9.3	6.3	9.9	13.2	10.5	13.5	7,278
Used items and others	11,340	17.6	21.8	24.2	27.8	31.0	33.1	17,831
Sales from technical services and commissions	8,726	10.3	14.4	18.6	23.3	27.3	30.2	16,237
Royalties and other revenue (FC)	522	1.3	1.3	1.1	0.8	0.3	0.3	174
Internet-related businesses	2,090	6.0	6.1	4.5	3.7	3.4	2.6	1,419
Total	46,912	100.0	100.0	100.0	100.0	100.0	100.0	53,816

The Company set as a policy objective its transformation into a store that specializes in services, and has strengthened its commitment to this policy as it entered the Internet era. The Company has also emphasized the sale of store brand products under the name “OZZIO.” However, although OZZIO accessories and supplies are highly profitable when compared with its other retail lines, the Company is moving further toward providing customers with services.

Unique business model with premium services as its income source

The service has various aspects, including (1) the continued subscription of premium members, (2) repair and maintenance, (3) MVNO and (4) content. The categories in the previous sentence are listed in order with respect to the percentage of total sales represented by each such category. In this sense, with premium membership service at the core, focus is placed on the extent to which the content service will grow in the future.

The Company’s business model is quite unique, even when compared to companies outside of Japan. The model consists of products sales, service sales, and its operation as an MVNO. Members enter into a three-year premium service contract. The company bears the cost of support up front, and then recovers it from the fees paid by members.

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Customers would like to use the PCs, tablets or other devices they have bought as soon as they get home. Takahisa Nojima remembers what that feels like. If after buying a PC, for example, a user takes 3 hours to do things such as create a recovery disc, set up anti-virus software, configure the initial settings and set a password, and then comes to a dead end, he or she will be stuck without some help. PC DEPOT's premium services are solutions to help such users over the Internet.

Suppose a customer brings his/her old computer and member card to a PC DEPOT store, and buys a new one. The store's service personnel will then carry out all the necessary installations of software for the customer onto his or her new computer. The customer takes the new PC home, and is able to use it immediately in the same way as the old one, via the PC DEPOT-branded wireless router, without having to do anything in particular. This is convenience personified.

A patent for this router's systems was registered in March 2012. Including other services, typical packages for these services are 3,950 yen per month (for up to 7 devices) and 4,450 yen per month (for up to 10 devices). The packages are also cloud-capable. These services have been gradually expanded and improved.

PC DEPOT's business model, which generates revenue from service sales, was brought fully into operation in November 2005 and has been steadily expanded since. Conventionally, various technical services such as installing additional memory have been provided for a price. Today, however, when a fixed month fee is paid, a wireless router is leased to enable the consumers to use high-speed internet service with the purchase of a PC alone. (Depending on the package, there is no extra fee for as many as 3 to 10 devices.)

As mentioned above, PC DEPOT also is an MVNO. An MVNO does not have its own mobile communication network, but provides services under its own brand by renting network space from major carriers. The Company provides services to customers as a telecommunications carrier, rather than acting as an agent for other carriers in exchange for incentives. This makes it possible to provide services that customers may want in a single package, making for a very convenient premium service. This service (an EM premium service supporting all devices—Personal plan) costs 5,750 yen (6,037 yen including tax) a month.

PC Clinic can readily be used as a one-time-only technical service. Making customers into premium service users is a better strategy in order to retain them as members to whom ongoing services can be provided over a long period time. In addition, PC DEPOT's direct running of PC Clinics facilitates the agile management of PC Clinics. That is why the Company changed its policy and began managing PC Clinics directly.

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Main menu of the principal premium services

	All device family plan	All device family wide plan
Initial setting/support	up to 7 all devices	up to 10 all devices
Wireless internet connection	complete & delivery at store front	High-speed wireless devices complete & delivery at store front
Home wireless connection	setting at store front, free of charge	setting at store front, free of charge
Measures against virus infection/data leakage/entering dangerous sites	up to 7 Windows PC, Mac or smartphone	up to 10 Windows PC, Mac or smartphone
ozzio email account registration/setting	1 address	1 address
Explanation on basic operations at store front	up to 7 Windows PC, Mac or smartphone	up to 10 Windows PC, Mac or smartphone
OZZIO cloud automatic backup service	up to 1TB	up to 1TB
Total service call center	available	available
OS upgrade & backup	up to 7 all devices	up to 10 all devices
Inspection at store front/periodic backup	up to 7 all devices	up to 10 all devices
Trouble restoration service	up to 7 all devices	up to 10 all devices
Data reconfiguration upon replacement	up to 7 all devices	up to 10 all devices
Memories in smart video	500 yen per month (excl. tax) up to 10 videos tapes (VHS, 8mm and/or miniDV)	500 yen per month (excl. tax) up to 10 videos tapes (VHS, 8mm and/or miniDV)
Tethering set-up	as many devices as needed	as many devices as needed
Extended warranty for PC repair	Unlimited repairs for 800 yen per month (excl. tax)	Unlimited repairs for 800 yen per month (excl. tax)
Monthly fee	3,950 yen (564 yen per device)	4,450 yen (445 yen per device)

A mechanism that is impossible for others to copy

Service income tends to increase in accordance with new PC sales. Moreover, service income has increased rapidly along with increasing sales of smartphones and tablets. An individual does not have only one device, but multiple devices. Also, families own multiple devices. Needs for dependable service arise in accordance with the number of devices owned, which makes it easier for the Company to have such users as regular customers.

It is difficult for other companies to do business in the same way as the Company does. The Company provides services by assigning experts in each service category and having them work as a

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single team. It has spent more than 10 years developing this system, which has become a business model that constitutes part of its corporate culture. It seems that competitors would be able to copy this mechanism, but it takes labor and time to provide technical consultation, and it requires a considerable amount of knowledge. Many years are needed before making money by providing services. It requires developing human resources, creating a viable a mechanism and continuing the process for many years. It is considered that present consumer product mass retailers cannot achieve this type of business in full scale.

3. Medium term business plan:

Fully fledged opening of SLP stores that will open up the content and services markets

A successful launch of new type of store: the PC DEPOT Smart Life Partner (SLP) stores

Currently, the Company has 51 directly managed PC DEPOT stores, 14 of which are SLP stores. In the term ended March 2014, four SLP stores were opened by renovating existing stores, one each at Nishimagome (in August), Higashifuchu (in November), Himonya (in February), and Shin-Yokohama (in February). The current term ending March 2015 saw the opening of 10 SLP stores: Tomei-Kawasaki (May), Minato Mirai and Chofu (June), Tsujido and Hiyoshi (August), Kohoku Flagship and Heiwadai (September), Setagaya-Kinuta (which was scheduled for full-scale opening in March 2015 but started sales operations early, in October), Hanakoganei (November), and Yamato (February, 2015).

With these developments, three types of stores have become SLP stores. We have three types of stores with floor spaces of 100, 200 and 300 *tsubo* (one *tsubo* is 3.3 square meters). SLP stores have areas of 100 *tsubo* in Nishimagome, 150 *tsubo* in Himonya, 150 *tsubo* in Tomei-Kawasaki, 250 *tsubo* in Higashifuchu, 300 *tsubo* in Shin-Yokohama, 300 *tsubo* in Minato-Mirai, 300 *tsubo* in Chofu, 300 *tsubo* in Tsujido, and 300 *tsubo* in Hiyoshi. Taking advantage of its dominant regional strength, the Company is renovating its stores. The logo of the stores has been simplified, and the store color has changed from its traditional blue to orange.

SLP stores are fashionable and convenient

The Smart Life Nishimagome Store is the first SLP store. It was opened by renovating a PC DEPOT store in Tokyo's Nishimagome in August 2013. The store displays less merchandise than a

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conventional store. It instead has spacious customer counters. Tablets now occupy more of the display shelves. The store format is based on the Company's new store concept, "providing services that customers need in a single package instead of simply selling products."

The variety of professional accessories the a store stocks may not satisfy the needs of PC aficionados, but this poses no problems as customers can ask for an item at the store counter and the store will obtain it for them soon after. The name of the counter for responding to customer requests (such as computer repairs) has changed from PC Clinic to Dr. Smart, and staff members now wear a new uniform.

People want to use the IT services they need immediately without having to deal with anything inconvenient. Tablets and other devices are provided with content services pre-installed and with all the necessary configuration completed. This convenience allows customers to use their tablets with these services without having to do any cumbersome preparation. The customers neither need to configure the initial settings while staring at user guides nor need to call several call centers asking for help.

The Company also advises customers on Internet connections and fees for each PC, smartphone and tablet that they are now using, thereby allowing them to lower the fees for all of their devices or to switch to more convenient service packages.

The "Smart Pack" billing plan is also coming into wide use, which includes a hardware device, software, and Internet connection in a single package. This package allows customers to use hardware, software and an Internet connection by simply paying a monthly fee instead of having to buy a hardware device and paying a monthly fee for the necessary software and Internet connection. Although this is a type of loan of an amount determined by subtracting the product's estimated residual value at the end of the loan term from the product's sticker price, as customers are familiar with the billing plans of Japanese cell phone carriers, which require a two-year subscription, they find this system acceptable.

The Company has embarked on full-scale store innovation. The PC DEPOT logo includes the terms "Low Price" and "The Computer Superstore," and its image is that of a PC supermarket, but in some areas this image no longer reflects the reality. Therefore, these two terms were removed from the logo of the new stores.

Smart Life stores will not just sell products; they will create packages and provide customers with the solutions that they want. Their customers will become members who will use the services they offer over long periods of time. PC DEPOT's president, Takahisa Nojima, stressed that the approach for Smart Life stores will not be to simply display products and ask customers to choose the ones they like. Instead they will be offered a one-stop service to provide them with the Internet

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communications that they want. Consequently, the atmosphere of these stores will be different to that of conventional stores and customer counters will be placed centrally within them.

Inventories decrease in Smart Life stores. By helping free customers from the burden of choosing products and services themselves, the role of these stores will be to provide the services needed by customers, as a result reducing inventories. However, a fixed level of account receivables will accumulate on the balance sheet because the merchandise will be in the form of packages made up of hardware, software, and content, with sales being collected in the form of monthly charges.

Store development history of PC DEPOT

(number of stores at the end of each FY)

	1994	1999	2004	2005	2009	2010	2011	2012	2013	2014 (forecast)	2015 (forecast)
PC DEPOT Directly managed	1	10	28	32	43	44	48	50	46	36	26
SLP stores									4	15	28
Subsidiaries	0	0	0	0	4	4	12	11	11	13	13
FC	0	8	32	24	17	17	5	5	5	3	3
PC DEPOT Directly managed	0	0	0	0	0	30	46	49	49	52	52
PC Clinics Subsidiaries	0	0	0	0	0	0	1	1	1	0	0
FC	0	0	0	5	24	6	7	7	7	6	6
Total	1	18	60	61	88	101	119	123	123	125	128

(Note) SLP stores include both new and renovated stores. Some directly managed stores have been renovated so as to be changed into SLP stores, and thus the relevant numbers have decreased.

Opening a large number of SLP stores by renovating existing ones

The second SLP store was opened in Higashifuchu in November 2013. Again, an existing store was totally renovated to create the SLP store. Investment cost per square meter of an SLP store is small, but personnel expenses are high, because services are provided on a face-to-face basis.

SLP stores transformed from existing PC DEPOT stores already have a certain level of recognition and regular customers. The key to their success is how many new service-oriented customers they can acquire. SLP stores can be set up even if the location is less than favorable. Both the Nishimagome and Higashifuchu stores are located on the second floor of a building. Even if they do not have dedicated parking lots, they can still attract customers if there are coin-operated parking lots around the building. The Company has learned that this format can work well and is speeding up the opening of SLP stores.

Firstly, SLP stores will be increased, mainly through renovation. As service grows and the percentage of total sales represented thereby increases, profitability will further improve. Costs for renovation are lower than those for opening new stores. Moreover, a marked impact can be noted. Comparing the situation before and after renovation, the profitability of renovated stores is about 20% higher than that of existing ones. The expenditures required to open a new store with an area of

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400 to 500 *tsubo* could be used for the renovation of four stores each with an area of 300 *tsubo*. Furthermore, the probability of recouping investments is higher, and the returns are also higher. Therefore, such moves are given first priority.

Four stores were renovated during the previous term and 11 stores during the term ending March 2015 to become SLP stores. In the next term, about 10 stores will be renovated. The previous term saw no new store openings, but one store opened during the current term. In the next term, three to four new stores may open, depending on the availability of locations.

The Company raised 2.3 billion yen through equity finance in January 2014. As the destinations for these funds, the Company plans to allocate 900 million yen to opening new stores, 1.1 billion yen to renovating existing stores, and 300 million yen to improving its IT system.

Among existing PC DEPOT stores, those stores that (1) are old, (2) have lost their competitiveness, and (3) are close to city centers will be chosen for renovation to create SLP stores. Although the stores put emphasis on providing services before selling hardware products, they have learned that they can also sell more professional peripheral devices than expected. Therefore, the Company has decided to maintain a certain level of inventory at its stores and so it is not necessarily the case that the inventory level of SLP stores will be considerably lower than at conventional PC DEPOT stores.

Forecast number of new PC DEPOT stores to be opened

		(number of stores)					
		2011.3	2012.3	2013.3	2014.3	2015.3 (forecast)	2016.3 (forecast)
PC DEPOT	Directly-managed	1	4	3	0	0	0
	SLP stores				0	1	3
	Subsidiaries	0	6	2	0	2	0
	FC	0	-12	0	0	-2	0
PC DEPOT	Directly-managed	30	16	3	0	3	0
	Subsidiaries	0	1	0	0	0	0
	FC	-18	1	0	0	0	0

(Note) New directly-managed stores are SLP stores. PC Clinics depend on projects with partners.
 Figures in parentheses for PC DEPOT indicate the number of FC stores that became PC DEPOT's subsidiaries. Those for PC Clinic show increases/decreases in the number of stores.

There remains considerable room for the opening of SLP stores. As a new-type store with emphasis placed on providing services, we can estimate there to be approximately 200 locations where these stores could be opened. The Company will first open stores primarily in the Kanto region to enhance its brand power through providing community-based services. The Company reckons that it requires 100 to 200 *tsubo* of land in Tokyo's 23 wards and 200 to 300 *tsubo* of land in the greater Tokyo area if it plans to open an SLP store on a vacant lot efficiently.

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Ongoing shift to SLP stores covers large stores as well

The two favorable characteristics of SLP stores are (1) the stores are now beautiful, making it easier for customers to talk to female store clerks, and (2) it is easy to consult with store clerks if one becomes a member. However, another aspect of the stores is that (3) unlike ordinary mass home electronics retailers, SLP stores have become slightly more difficult for price-conscious customers and hobbyist PC users to enter because they give the impression of being boutiques. Still, another benefit of the stores is that (4) they make it easier to use women effectively as part of the workforce.

As part of its future store development plan, in addition to the store formats having an area of 100 to 150 *tsubo* (Nishimagome and Himonya), an area of 150 to 250 *tsubo* (Tomei-Kawasaki and Higashifuchu), and an area of 300 *tsubo* (Shin-Yokohama, Minato-Mirai, Chofu, etc.), the Company has been considering how to apply the ongoing shift to SLP stores in its next plan for large stores.

In fact, the Company recently started to implement the shift to SLP stores at large PC DEPOT stores. It introduced Smart by Solutions (S×S) at the Tomisato-Interchange store in Chiba. By installing a booth similar to those of SLP stores at conventional large stores with a blue signboard rather than the orange type used at SLP stores, it is checking the effectiveness of this plan.

Promotion of a shift

The number of SLP stores will increase by 11 to 15 by the end of March 2015. The 11 additional SLP stores consist of 10 stores opened by renovating existing stores and one new store. In the term ending March 2016, the number of SLP stores will increase to 28 in total as a target value, with three new SLP stores and 10 SLP stores to be opened by renovating existing stores.

As for investments in new stores, the Setagaya-Kinuta store will to be opened on a full-fledged basis in March with a floor space of 300 *tsubo* requires an investment of 350 million yen; however, this is an exception, and normally 250 million yen is invested in a store with a floor space of 200 *tsubo*.

The size of the stores renovated into SLP stores is up to 300 *tsubo*. For stores larger than that size, although total renovation into SLP stores may be difficult, some advantages of SLP stores can be incorporated into renovations.

From PCs to Internet devices

The sales of PCs are declining. Will this be a problem for the Company? No, because the number of devices each person owns will increase. In place of computer sales, sales of smartphones and tablets have been growing. Desktops and notebook computers will never entirely disappear and their role as the core “player” in information technology is of course going to remain. As the number of

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devices owned per person increases, users will always require a network environment for these devices to use.

Where will users store their basic data? They are increasingly using cloud services, but there will be high demand from users who want to store their data locally. In such cases, personal computers will be used as the core storage device. Nobody is saying that PCs are not needed any more. Smart devices—desktops, notebooks, smartphones, tablets, and more—are becoming increasingly diverse, increasing the potential for the provision of support services for them. This will add value to the services that only PC DEPOT can offer.

The starting point of the Company's social mission is helping to resolve the digital divide. Doing this is likely to considerably expand the range of services and products it provides. Furthermore, it is increasing its added value by forming partnerships with content providers. It can be difficult for the elderly or busy people to set up and use an Internet connection themselves. In addition, users appreciate getting immediate support if their devices are not working properly.

Original development of content and services: more than 50 types of digital content services

The Company has been evolving its business model. At the present time, the Company is focusing on developing content and services that are compatible with Internet devices and providing them to customers as solutions.

Originally, as personal computers began to appear, its business model was similar to that of consumer electronics superstores, consisting of building computer stores and selling desktops and notebooks. However, in order for users to make full use of their computers, they needed to be also provided with software and hardware products together with their personal computers. While offering sophisticated products and services to satisfy the requirements of computer enthusiasts, as personal computers have become more popular services for computer novices have also become required. PC DEPOT's service lineup includes not only repairs, but also services for when customers are buying a replacement computer and that inform them in an easy-to-understand way about new models and software that have been announced. There is nothing more convenient for users than being able to start using their device in a moment.

Today, internet devices have diversified from being personal computers into smartphones and tablets. People have multiple devices and use them according to their needs and the occasion. And the combination of content and device meets the needs of today's consumer.

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In fact, one of PC DEPOT's ideas is to install digital versions of specialist magazines onto a tablet and offer them as a package at an affordable price. The users have the content that they want immediately, in addition to being able to use the tablet freely.

Digital-contents services (examples)

Contents (magazines)	(yen)		Contents (magazines)	(yen)	
	Magazines + iPad mini Monthly fee	Fixed prices of magazines (yen)		Magazines + iPad mini Monthly fee	Fixed prices of magazines (yen)
Weekly Toyo Keizai	2,000	690 Weekly	Nikkei PC21	1,200	650 Monthly
Nikkei Woman	1,200	580 Monthly	Mainichi ga Hakken	1,000	— Monthly
Nikkei Business Associe	1,200	650 Monthly	News Week	1,500	460 Monthly
Nikkei Money	1,200	690 Monthly	PEN	1,200	650 Biweekly
Nikkei Trendy	1,200	570 Monthly	seventeen	1,200	590 Monthly
GetNavi	1,200	610 Monthly	non · no	1,200	650 Monthly
LEVOLANT (Le Volant)	1,200	1,010 Monthly	MAQUIA	1,200	650 Monthly
Lettuce Club	1,000	329 Biweekly	Marisol	1,200	800 Monthly
ESSE	1,000	500 Monthly	BAILA	1,200	730 Monthly
President	1,500	690 Monthly	eclat	1,200	940 Monthly
DigiCAPA	1,200	910 Monthly	LEE	1,200	670 Monthly
CAPA	1,200	700 Monthly	MEN'S NON · NO	1,200	770 Monthly
Mac Fan	1,200	780 Monthly	Haiku	1,200	920 Monthly
Weekly Soccer Digest	1,200	480 Weekly	Tanka	1,200	930 Monthly
WORLD SOCCER DIGEST	1,200	620 Biweekly	EVEN	1,200	741 Monthly
Nikkei Health	1,200	600 Biweekly	Shogi Sekai	1,000	800 Three times in a
Slugger	1,500	900 Monthly	Nikkei Business	2,000	690 Weekly
Smash	1,200	670 Monthly	Tsuribito	1,200	935 Monthly
dancyu	1,200	880 Monthly	Kaminuma Emiko no Oshaberu Cooking	1,000	490 Monthly
DOS/V POWER REPORT	1,200	1,180 Monthly	Shumi no Engei	1,000	545 Monthly
Golf Digest	1,500	390 Weekly	Kyono Kenko	1,000	545 Monthly
RIDERS CLUB	1,200	905 Monthly	Igo Koza	1,200	545 Monthly
BiCYCLE CLUB	1,200	720 Monthly	Thank You!	1,000	420 Monthly
Discover Japan	1,000	1,008 Once in two Monthly	Package of two magazines	1800 2100	
Flick!	1,000	— Monthly	Package of three magazines	2200 2300	
Fujingaho	1,200	1,200 Monthly	Package of four magazines	3,300	
ELLE	1,200	690 Monthly			
25ans	1,200	780 Monthly			
MEN'S CLUB	1,000	780 Monthly			

(Note) All monthly fees are standard prices, and discount prices are also shown if available. Prices of packages depend on combinations.

Customers can purchase a Lettuce Club package with content published twice monthly at 329 yen per issue and an iPad Air (16 GB WI-Fi only model) for a monthly fee of 1,000 yen. The contract period is for three years. If a consumer purchased these two items separately and for the same period of time as the contract, it would cost almost 60,000 yen. But with this package, customers pay only about 36,000 yen. The Company aims to package and offer services that customers want in order to retain them as long-term customers.

Acquiring members by installing content on devices

The unique service of distributing digital magazines through tablets has further spread throughout the market. *Nikkei Business*, *Toyo Keizai*, and other magazines are now available in this way. What is

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more, a subscription for a certain period results in lower costs than those for print-based magazines and newspapers.

LEVOLANT is a specialist, colorful car magazine for motor enthusiasts. The price of the magazine is 1,010 yen a month, but if readers pay a subscription price of 1,200 yen a month, they can get an iPad Air as well. Books and other publications can be heavy to carry around, but this package allows them to be read casually anywhere.

The reason why this package is being offered at a lower price is because the Company has capabilities in the area of content package services. If consumers already have iPad Airs, all they need to do is to buy the digital version of this magazine. They can of course buy an iPad and the magazine separately, but doing so will cost them more than 1,200 yen a month. The publisher of LEVOLANT could sell this package themselves, but they are unable to provide users with support until they master their device. On the other hand, the Company provides a one-stop service and offers support to users whenever they need it. This service is also convenient for content providers as it helps them to increase their digital audience. More than 50 kinds of packages are already being offered.

Need for specialist services surviving a reinvention of Internet devices

There is an accelerating trend for the position of leading player in personal communication to be shifted from personal computers to smartphones. Cloud systems will become the main infrastructure. Computers used to be at the center of the internet, but are now giving way to net devices embedded in appliances, cars and homes, making them useable anywhere. Software is required to control such functions, and services are also required to make full use of this software. The Company is committed to the provision of these services, and has set as its objective the adopting of a strategy to expand its business to cover internet devices, and to not limit its services to computer-orientated ones.

In today's digital era, Google, Microsoft and Apple are the Big 3. With these three top players at the center, Takahisa Nojima has established the fundamental policy for PC DEPOT as "helping users to resolve their problems."

Gaining service members by troubleshooting for our customers

In-store arrangements like those of SLP stores are found in Europe, but the Company's business model, which allows it to retain customers mainly through providing services, does not exist either in the West or in Asia.

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The inspiration for this business model dated back more than 10 years. At first, the Company started to put priority on serving consumers who were not familiar with PCs. In those days, there was a perception that PC users were somehow a different “tribe” or subculture of people. President Nojima, however, aimed to make customers of people who were not skilled at using PCs. He did not offer PC training courses. He tried to provide free help to people who were unable to use PCs easily and those who wanted to reset their frozen PCs.

Next, he gave priority to serving “people who have difficulties.” He dug deep into the technical support business and made it a tool for differentiating his company from others. Thinking that it would be more convenient to receive service continually by paying monthly fees than paying fees every time a technical problem occurred, he launched a monthly fee system in 2006.

Today, the service has been refined into a scheme that can provide services when users face any technical trouble. The convenience of the premium service has been enhanced as more women and families use PCs.

The Company is committed to increasing the number of its premium members. Detailed data is collected and tracked for each area, in order to maximize the number of customers who become premium members when, for example, they buy a computer, visit to have a repair done, or replace their PC.

Premium members are increasing at a very high rate. However, this does not make money in the short term. The Company needs to make an up-front investment for each router which takes a year to recoup from the monthly premium service fees. However, once the initial outlay has been covered, profit is generated at a fixed rate from the second year onward.

The sales of services are growing steadily. What this means in practice may be somewhat difficult to understand for people not directly involved; however, the Company’s policy is clear. Sales incentives like those given by manufacturers for product sales are included in product sales. Sales from premium services, repair, maintenance, and one-off service plans are classified as service sales. The Company provides such diverse services that it is difficult to analyze the details of its service sales by disaggregating sales data into the number of service subscribers and the average unit price of services provided. This is because the number of customer and prices are not the most significant factors in this context.

The Company does not release information on the number of members, but given the variety of services it offers and the increases in the number of services and devices it supports, it is likely that the number of members is increasing by about 20% a year.

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Enhanced services

Target devices	Contents of principal services
iPhone	Extended warranty on property damage (device failure, failure due to water leakage or breakage) Synchronizing iPhones and PCs Making reduced-rate telephone calls with an iPhone Listening to radio programs with an iPhone
iPad	Device failure due to water leakage and breakage (a maximum of twice in two years) Synchronizing iPads and PCs Data sharing with your Mac and iPhone + iPad Watching iPad contents on a large screen
Windows machine	Initial settings + data recovery disk Data migration + HDD backup Support with a one-point quick lecture
Nexus 7	E-mail setting + account registration Safety measures against virus and for personal information protection + 1TB cloud package Reading the Asahi Shimbun on the Nexus 7

Good service leads to competitiveness, while new store openings lead to superiority over rivals

Recently, smartphones seem to be sold cheaply, as if they were a commodity. However, the Company does not merely sell hardware such as PCs and tablets, but offers services. This is a system under which convenient solutions are provided on a continual basis for a monthly fee.

60% of visitors to PC Clinics are those who bought products at other stores. That means they interested in something other than low prices. PC Clinics support a wide-range of products owned by our customers. This brings about significant efficiency to the Company.

When considering the profits generated by products sales and from service sales from a perspective of operating profit levels, it is not possible to create a clear-cut breakdown of levels on classified into products and services. The reason why this cannot be done is that the Company's management does not differentiate products sales and service sales. Even though each staff member at stores has his/her own role, everyone provides both products and services. These sales are not differentiated when assessing employee performance. One pattern used involves a customer buying a product and subscribing to a service, thus becoming a regular customer of PC DEPOT, who naturally comes again to buy some other product.

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However, even when profits derived from product sales and from service sales are viewed from the perspective of operating income under certain prerequisites, the structure in which service sales are highly profitable remains unchanged.

In the competition to capture this demand for services, the Company has the advantage that is furthered by its track record over the years and its personnel. That is, the Company has set as its core policy differentiating itself from the competition. It does this by providing services that take time and effort to customers who may need more help to make full use of their purchases. The Company targets this kind of customer rather than those who do not need such services, and it is this latter kind of customer that other companies have set as their main target for their retail-exclusive operations.

Service menus of PC Clinics (examples)

(yen)

	Member	General
Service		
12 tickets for quick lectures	5,000	30,000
Setting-up		
Setting-up a wireless printer	3,000	10,000
Data		
Data restoration service	5,000	16,000
Setting-up an external peripheral device		
Setting-up a printer	3,000	6,000
OS/application configuration		
OS installation	0	10,000
Internet/network configuration		
Third-party provider email configuration	3,000	7,000
Smartphones/tablet devices		
Includes a mobile access point to set up Wi-Fi	3,000	10,000
Data management configuration		
Synchronizing with iTunes and synchronizing with back-up data	3,000	6,000
Configuration for peripheral devices		
AppleTV configuration	3,000	6,000
Contents/application configuration		
Setting-up for newspaper subscription	1,000	4,000

NOTE: "Member" refers to the service member of PC DEPOT; "General" refers to others.

Consumption tax is not included, so 8% of these prices will be added as the consu

Importance of risk management due to increase in accounts receivable caused by new service sales

In SLP-based businesses, it takes three years to collect the full amount of revenue from products and services. Products sales are recorded under accounts receivable, which increase as SLP-based sales rise. For example, iPad Air + magazine sales are growing. They are recorded first as product sales and then as service sales. The monthly fee charging service for tablets and printers is designed

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to sell hardware first and then collect its price through monthly fees. In other words, this means that accounts receivable (installment accounts receivable) grow on the balance sheet.

Such accounts receivable grew by 600 million yen during the term ended March 2013 and by 1.9 billion yen during the term ended March 2014. During the current term ended March 2015, they are expected to rise by 2.8 billion yen. Worded differently, the Company needs more working capital as such accounts grow. If the Company makes progress in collecting monthly fees, however, the amount of working capital needed will not increase as it is currently doing because a balance between outstanding accounts receivable and required working capital will be gradually achieved. In one to two years, the pace of growth of accounts receivable will subside to the level of 1 billion yen annually.

An increase in accounts receivable will also require enhanced credit management. With regard to sales at conventional merchandise stores, the individual credit risks arising from customers paying by credit card are assumed by the credit card companies, but such risks accompanying sales at Smart Life stores must be taken on by the Company. In the event that a customer becomes unable to make monthly payments for any reason, the Company will have to assume his/her debts.

In principle, as the Company sells products and services to individual customers who use IT products, it performs identification and usage checks very carefully before sale. Volume sales to corporate customers are outside the scope of its business. In many cases, the Company may turn down a bulk purchase even from an individual customer because it is unsure whether such products and services are actually for private use. As is obvious from the above, credit risks are well controlled by stores and therefore there is no need to worry about such risks.

Focusing on human resources development

Location and human resources are key factors for store development. With the Company's services, people always contact consumers by analog methods, and this is where a benefit can be found. Users pay monthly fees because they feel the convenience of a certain frequency of use.

At present, the Company has a workforce of about 2,100, with 776 regular employees and 1,333 part-time workers. (These figures are based on eight hours of work per day.) The Company plans to add 100 regular employees and 300 part-time workers annually. In other words, in order to achieve a 20% increase in the service business, it is necessary to increase the workforce at a certain rate, and furthermore, an increase in the number of workers should occur ahead of business growth. The Company plans to turn 50 to 60 part-time workers into regular employees each year.

In terms of human resources, the Company has changed its conventional system of employing new graduates periodically and is inviting current students to work with them as interns or

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part-timers and then it will recruit some of them as regular employees when they graduate. This enables the Company to steadily attract better workers and motivates part-timers to work harder. The Company raised basic wages (a regular wage hike) by over 2% in July 2013 in an effort to improve employee treatment.

The Company is conducting HR development to support its new-store openings. PC DEPOT has attracted employees who like PCs. It also has many female employees. Its female employees have expertise in hardware, software, as well as in their usage, reflecting that working at PC DEPOT is worthwhile and fulfilling to both women and men. Employees receive training and the Company is able to staff the PC Clinics that it opens.

The Company does not impose any quotas for individual staff's sales and service performance. Instead, everything is handled on a team basis. A team consists of three to five people and, for example, there may be five teams in a store. The management concept behind this is that the team members can share their experience and thereby raise each other's levels of competency. Employees' attitude and responsiveness to customers is the key. Part-time workers who have worked for the Company for a long time are proactively promoted to full-time positions.

Another point is the stores' use of "cyber operations." This was originally a kind of risk management scheme through internal monitoring, by which the on-site staff and the head office can be connected via Internet telephone and they can ask each other about anything at any time. Support for services can also be provided from the head office. If an on-site staff member has a problem, another person in the store can immediately go and provide them with support. Being able to respond quickly in this way improves service capabilities, while customers feel they are being dealt with kindly, politely, and quickly at PC DEPOT stores.

Response to the rise of internet shopping

There is a concern that internet shopping might be a threat to over-the-counter sales. In fact, some people browse products at stores, but actually buy them online, as the prices.

This scenario is fine for those users who are able to make full use of their newly purchased hardware. However, others are in great need of convenient services in case they do not understand how to use their new hardware fully or are faced with some problem. That is where the Company has a chance to show what it can do. Basic sales of products such as iPhones, iPads, Nexus smartphones/tablets or Kindles do not make much profit. But if customers subscribe to premium services, the relationship with them can be maintained for a long period time, and service sales will contribute to earnings. In that sense, the Company is continuing to handle new products in a proactive way.

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Displaying its individuality in the market for low-priced smartphones

The Company is creating business by focusing on ease of use for customers. Low-priced smartphones are increasingly the subject of conversations, and the Company offers two models, one having a monthly fee of 1,490 yen and the other 2,490 yen.

A SIM card must be set inside each smartphone before it can be used, but such setting often takes more time and labor than expected. The Company performs this service for customers so that they can start using their smartphones as soon as they leave the store. Since the 1,490-yen smartphone operates at a low speed, it has a slow response when using many images, but it leads to no inconvenience so long as people who previously used a traditional Japanese-style mobile phone (feature phone) employ it mainly to make phone calls and send email. These 3-GB, 2,490-yen smartphones compare favorably with the smartphones offered by major carriers.

The Company is also considering corralling customers by offering these smartphones with low-cost services. It does not accept subscriptions to this type of service via the Internet; it delivers all these services through its outlets. Trouble due to malicious individuals does not occur because the Company confirms customers' identities at its stores. Additionally, no call center is required because the Company provides all maintenance services at its stores. Serving customers at the store allows easy clarification of whether the reason customers cannot use their smartphones well is due to a malfunctioning unit or insufficient knowledge. This business model enhances customer satisfaction and keeps service costs low.

In addition, if customers subscribe to support services, which start from a monthly fee of 500 yen, they become the Company's service customers, allowing us to have further opportunities to offer them diverse products and services.

How do we sell wearable terminals?

When selling new services at stores, the provision of solutions is the key. For example, when the Apple Watch is launched as a wearable terminal, services used to sell conventional watches cannot be applied to sell the Apple Watch.

To put it briefly, when selling normal wristwatches, if a company only displays them at stores, customers will choose their favorites and take them. However, to sell the Apple Watch, it needs to be differentiated from smartphones and requires various settings. Solutions need to be put in place so that customers can make full use of it immediately. PC DEPOT stores can provide this service; however, it is not sure if other companies' stores can provide the same service smoothly.

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Stepping up efforts to provide solutions

The future sales policies of the Company are to (1) step up smartphone sales and (2) concentrate on providing solutions. As smartphones sell well, the Company is required to provide solutions to support them. Recently, an increasing number of users have printed directly from their smartphones and tablets using printers, and this encourages better sales of printers. The Company has started to provide services that enable customers to use a printer at a monthly fee of 500 yen rather than purchase a printer for 25,000 yen. Thirty percent of the Company's customers acquire a printer through this type of service.

The Company will also link its services to health care products. If users step on Tanita's weighing machine, various types of data will be transmitted to their PCs or smartphones so that they can be managed conveniently. Furthermore, it will perform all necessary settings on behalf of customers. These services are designed so that customers pay a monthly fee to enjoy them. Since the Company increases menu items as described above, product sales, including services, will grow rapidly.

Major carriers will unlock the SIM locks of smartphones around May, and sales of smartphones will change depending on when they do so. Up to now, the subscriber identity module (SIM) card of mobile phones in Japan has been locked. In other words, the SIM card, which records information such as phone numbers which identifies individuals, can only be used for a particular mobile phone.

Overseas, any mobile phone can be used as one's own phone merely with the insertion of one's SIM card. Worded differently, if one has an SIM card, one can buy new smartphones more easily. One may own two to three smartphones so that one can use them for different purposes.

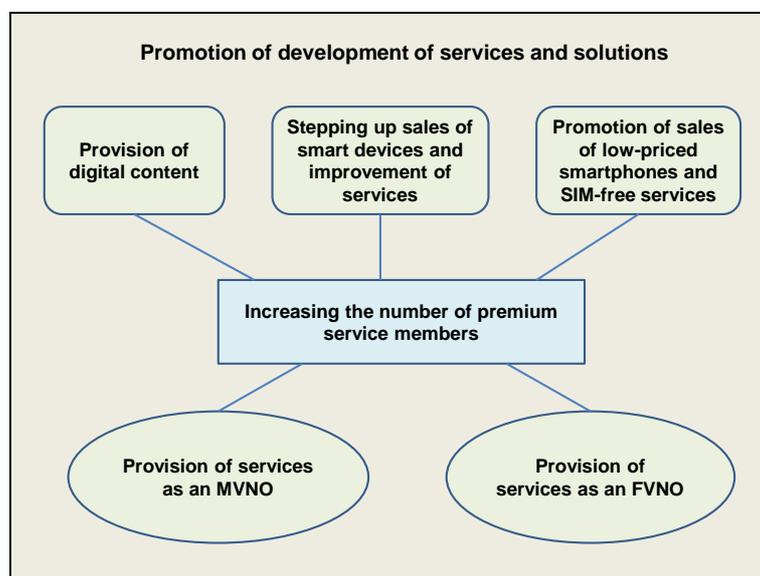
NTT East and NTT West, meanwhile, plan to start wholesaling optical line services. These services allow other companies to lease NTT's networks to provide fixed-line services under their own brands as fixed virtual network operators (FVNO) like mobile virtual network operators (MVNO). Up to now, the Company has acted as an agency for optical lines, but from now on it will provide them under its own brand. From the Company's router onward, the same line can be used, and therefore, NTT's optical line will be replaced by the Company's own. Since it can incorporate these into the premium services, the Company can improve its overall services without any particular difficulties.

The Company will take leadership in supporting these services of NTT's. Sales competition is likely to become intense, but in terms of how to use these services efficiently, there is ample room for the Company to expand service demand by enhancing its service functions. This will provide the Company with new business opportunities.

Specifically, the Company can (1) provide hardware maintenance services for smartphones, (2) offer services associated with smartphone replacement, (3) lower communications fees by

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incorporating FVNO services into its premium services and (4) help users to achieve greater efficiency in home communications hardware and software. These services will be useful to users. The Company will be able to charge higher monthly service fees that correspond to such services.



Epoch-making transformation of NTT toward wholesale business

FVNO's service provision using optical lines is an epoch-making change. In the 30-year history of the privatization of NTT, sales of mobile phones have increased, centering on NTT DOCOMO, while fixed telephone lines have been on the decrease. Under such conditions, NTT East and West first tried to expand optical network lines on their own; however, later they completely changed their policy.

In short, they decided to terminate their retail business and devote themselves to wholesale business. As the optical lines of NTT are sold on a wholesale basis, it has become possible for anyone to initiate retail services. NTT DOCOMO is able to provide services for both mobile phones and optical fixed telephone lines, while other companies in various industries also sell optical fixed telephone lines at retail among their services. In that sense, competition will become fierce, but the Company can greatly expand the range of its services and products.

Increased added value with FVNO

FVNO services will also support fixed-line services. So far, the Company has provided services by attaching its Wi-Fi router to the tip of optical fiber lines, but now it has become possible to provide services including fixed optical lines.

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The Company will have to compete with mobile phone shops of carriers in FVNO services. In the competition, each company will make the most of its characteristics. The Company will have existing members subscribe to FVNO services and communicate the advantages of the Company's unique services to customers.

An increase in the menu of services means an increase in the number of people who cannot use them properly, which may lead people experiencing difficulties to PC DEPOT. To compete with carriers' shops, we may have to use incentives (sales promotion expenses).

PC DEPOT's unique services using optical fixed telephone lines have a good reputation. Customers can check faxes that have come to their homes via their smartphones, use their smartphones as cordless handsets at home, and make telephone calls and send faxes within 10 minutes 300 times a month without paying any surcharges. Customers can use these services at the cost of 2,000 yen per month by subscribing to the Company's optical Internet services.

**PC DEPOT high-speed optical line
(Optical Internet service as an FVNO)**

- The Company has developed "OZZIO Hikari" as an FVNO (fixed virtual network operator), starting in February 2015.
- Fusion with the Company's MVNO services, such as premium services, support service, content service and low-priced smartphones.
- OZZIO Hikari is provided by the Company by buying wholesale optical lines from NTT.
- The Company's premium members can get good-value set services and enjoy convenience when they change from NTT's optical lines to OZZIO Hikari.

Pursuit of lifetime value

The shift to SLP stores will advance steadily. PCs will increasingly be accumulated as stock because they do not cease to exist. PC DEPOT has been evolving to achieve a brand new type of format by completing a total makeover of PC mass retailers. After transformation to SLP stores, stores experience changes in comparison from their previous formats, in that (1) customers stay in the stores longer, (2) more female customers visit, (3) customers revisit more frequently and (4) customers consult with employees about various matters.

The extent of sales in terms of customer hardware purchases changes little after renovation. However, sales from providing service are certain to increase. In other words, the stores gain long-term customers.

A short interval between visits means that visitors revisit the store again sooner once they have bought a product or service. Increasing numbers of female visitors represent the fact that needs for

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digital devices in households have risen and people wish to have a better command of them. In this sense, President Nojima hit a bull's eye.

On the other hand, some customers miss the old stores, where a full array of products was displayed. Others find the fact that they cannot see many products to be less attractive. However, clarifying the function of stores has highlighted the uniqueness of the Company.

When the Company used a blue logo (for the former PC DEPOT), employees always were looking over their shoulders at competitors. However, after the change to the orange logo (the new SLP stores), they have no longer been paying excessive attention to competitors. It is said that they spend more time in the store explaining products to customers and less time negotiating with customers about prices.

“Lifetime value” is a concept in which the time span during which a customer uses a product is considered to be that product's “lifetime.” The value of the customer to the business in a general sense during the lifetime of that product is raised, allowing the Company to generate sales accordingly during that time.

The Company's service sales are growing, but in the normal growth pattern for services, they become profitable only in the second or third year of a three-year contract. Service quality should be improved so that members are encouraged to buy more products from the same store. Of course, member numbers are bigger at existing stores than at new stores. New stores have to compete in terms of products sales initially, and then, going forward, they will increase their member numbers. So, if prices go down in due to competitions of products sales, making profit at new stores would be slower than expected. By increasing members, service sales can be raised, leading to additional profits several years later.

The number of service subscription members is increasing, so “lifetime value” of a particular level can be ensured, depending on the terms of the members' subscriptions. PC DEPOT is meeting the challenge of expanding a business model that is dependent on a customer base formed of members who are subscribed to its services. The Company operates while carrying out analysis of its service sales.

After achieving an ordinary profit rate target of 7% to 8%, aim at 10% with the new business model

The shift to SLP stores has sped up the transformation from a flow-based business model to an asset-based one. Connections between customers and the Company have become stronger. Moreover, giving consultation to customers increases contact with them.

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The success of the Company's business model as described above is also evident in its financial results. Based on its long-lasting relationships with users, it is also changing its profit structure from a flow-type to a stock-type. The Company intends to raise its medium-term ratio of ordinary profit to sales from the current 2% to around 7% to 8%. The Company's profit rate when it was listed as a computer superstore around 2000 was 4.4% and it is aiming to exceed this level with its new business model.

The opening of a new SLP store requires an investment of 200 to 300 million yen. Assuming 700 to 800 million yen in annual sales, the SLP stores will start contributing to earnings after three years, when their customer base of services is sufficiently expanded. The stores are in a phase in which they can be expected to achieve an operating profit rate of 7% to 8%.

Members of the service system exhibit several usage patterns, which cannot be explained only by the number of members and average values such as the average unit price. The conventional pattern has been service on a per-household basis. However, in the age of cloud services, the personal management of data has become important, and accounts for individual users are therefore important. The nature of services will also be further diversified.

In short, that means that the number of members will increase at a higher pitch than ever before, and the unit price of services will also increase. Contract prices, as the source of funds for services, will increase by 20% to 30% per year. If things continue in this way, it is possible to aim for a ratio of ordinary profit to sales of 10% or more. Therefore, as the next target, the Company will aim at ordinary income of 8 to 10 billion yen in the next five years in line with the expansion of sales of services.

4. Near-term operating results:

The benefits of service sales have become apparent, and record-high profits have been achieved.

Performance started to recover in the term ended March 2013

The Company achieved a better-than expected recovery in FY2012, with net sales of 51,353 million yen (up 3.3% YoY), operating income of 876 million yen (up 58.3% YoY), ordinary income of 933 million yen (up 30.1% YoY), and net income of 445 million yen (up 59.0% YoY).

Although same-store sales declined to 94% of the total of the previous fiscal year, service sales continued to grow, by 21%, accounting for 27% of all the Company's sales. The growth of service

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sales contributed to the overall strong performance, despite an increase in the number of stores and service staff as well as in system development costs.

On the balance sheet, accounts receivable increased due to the rise in service sales, while efforts were made to reduce inventories. Due to this, inventories in existing stores decreased by around 20%. In terms of accounts receivable, sales of service-inclusive products like communication terminals by MVNO and premium services (maintenance service products for members for a monthly fee) increased.

In hardware sales, PC sales increased 2.2% YoY, as although unit prices declined 17.4%, the number of units sold increased 23.8%. Service sales increased by 14 billion yen (up 21.1% YoY), raising the percentage of total sales represented by services to 27.3%. Increased service sales boosted the gross profit margin of total sales from 29.7% in the previous year to 31.4%. In addition being caused by the opening of new stores, the increase in service sales was due to the growth in sales of tablets and smartphones, which occurred in conjunction with the increase in the number of Internet devices owned per person. Members use more units. Service fees become higher when the members want to receive services in bulk.

Comparison of earnings forecasts and of profit ratios

(millions of yen, %)

	2011.3	2012.3	2013.3	2014.3	2015.3 (forecast)	2016.3 (forecast)
Net sales	46,912	49,693	51,353	53,816	53,000	55,000
Gross profit	13,640	14,756	16,134	18,429	20,400	22,000
Ratio to sales	29.1	29.7	31.4	34.2	38.5	40.0
SG&A expenses	12,271	14,202	15,258	16,118	17,300	18,000
Ratio to sales	26.2	28.5	29.7	30.0	32.6	32.7
Operating income	1,368	553	876	2,310	3,100	4,000
Ratio to sales	2.9	1.1	1.7	4.3	5.8	7.3
Ordinary income	1,509	717	933	2,411	3,200	4,100
Ratio to sales	3.2	1.4	1.8	4.5	6.0	7.5

NOTE: Forecasts are by analysts.

The term ended March 2014 saw another large increase in profit.

For the term ended March 2014, the Company delivered very good results with 53,816 million yen (up 4.8% YoY) in sales, 2,310 million yen (up 163.6% YoY) in operating income, 2,411 million yen (up 158.4% YoY) in ordinary income and 1,554 million yen (up 248.7% YoY) in net income. Income figures were the highest in the Company's history.

The reasons for this are as follows: 1) service sales remained firm, up 28.7% from the previous year and growing to account for 30% of total sales; 2) frontloaded demand for PCs took place before the consumption hike as maintenance for XP was terminated; and 3) prices of PCs and other equipment stabilized with the continuing trend of a weak yen. By product, sales of hardware

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declined, but the frontloaded demand in March may amount to 1.5 to 1.8 billion yen. Although existing stores had been prepared for a decrease, they performed well, with a 4.8% increase.

The total number of stores as of the end of March has not changed since the previous year, but 4 out of 66 PC DEPOT stores were renovated to become SLP stores (PC DEPOT Smart Life Partner stores).

As for dividends, the Company aims to return profits to shareholders in a consistent manner over the long term, with a payout target of 20%. Due to good earnings, the Company increased dividends.

Balance sheets comparison

(millions of yen, %)

	2010.3	2011.3	2012.3	2013.3	2014.3	2014.1
Current assets	10,511	11,678	14,185	13,991	18,494	21,308
Cash and deposits	1,754	2,505	2,083	2,982	4,679	2,161
Accounts receivable-trade	2,251	2,533	3,619	4,098	6,939	8,870
Inventories	5,316	5,500	7,285	5,986	5,775	8,984
Fixed assets	7,443	8,051	9,052	8,942	8,644	9,129
Tangible fixed assets	2,844	3,736	4,941	5,073	4,836	5,021
Goodwill	1,025	690	406	155	10	6
Guarantee deposits	1,479	1,440	1,466	1,387	1,349	1,499
Lease deposits	1,329	1,234	1,272	1,268	1,248	1,279
Total assets	17,954	19,729	23,238	22,933	27,138	30,438
Current liabilities	6,473	6,449	9,225	9,009	9,758	12,867
Accounts payable-trade	2,764	2,421	3,506	2,087	3,506	4,409
Short-term loans payable	800	700	2,100	2,550	900	3,920
Long-term loan payable (within one year)	690	1,004	1,518	1,849	1,727	1,499
Fixed liabilities	2,743	3,747	4,449	4,149	3,915	2,773
Long-term loans payable	1,936	2,759	3,809	3,479	3,244	2,143
Net assets	8,738	9,533	9,563	9,722	13,464	14,797
Interest-bearing liabilities	3,426	4,463	7,428	7,879	5,871	7,563
Interest-bearing liabilities ratio	19.1	22.6	32.0	34.4	21.6	24.8

Working capital is on the increase.

The balance sheet for the term ended March 2014 saw an increase in accounts receivable due to the frontloaded demand in March. Shareholders' capital increased considerably after 2.3 billion yen in finance funds was injected through a public offering. Capital-to-asset ratio jumped to 49.5%.

With the profitability of this Company rising, the Company can make capital investments with internal funds alone. The finance funds of 2.3 billion yen will also be used for making new stores. Capital investment will increase from 800 million yen in the previous year to 1.3 billion yen in the current term. Renovation costs 70 million yen per store. Opening a new store costs 200 to 300 million yen. It is less expensive to open a SLP store than to open a conventional new PC DEPOT store. On the other hand, when service sales increase, operating funds grow faster than such sales. As a result, the investments will be recouped over a few years.

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The recent noticeable trend is that while the number of visitors to the Company when it engaged mainly in products sales, sales tended to be not bad during the service sales have grown constantly, registering a double-digit increase. On the balance sheet, accounts receivable have increased. When service sales increase, accounts receivable grow because a product that combines a tablet with magazines, for instance, is a package of service and a product for which costs are collected partly after the sale from a monthly fee. Store investments have settled down, but the amount of working capital needs to be increased as service sales grow. The Company is currently increasing software investments, also. This initiative is being taken in order to concentrate the Company at energies on establishing a cloud-computing system of its own, and on building its own proprietary fee-charging system. The Company plans to open a certain number of new stores, though it will do so while closely watching market conditions.

Cash flow trends

	(millions of yen)						
	2010.3	2011.3	2012.3	2013.3	2014.3	2015.3 (forecast)	2016.3 (forecast)
Cash flow from operating activities	182	1,121	-635	1,597	2,010	-1,440	2,300
Net profit after tax	651	713	-63	441	1,902	1,850	2,500
Depreciation	512	595	715	728	686	700	800
Amortization of goodwill	344	334	296	259	145	10	0
Accounts receivable	-356	-281	-1,087	-479	-2,840	-2,000	-1,200
Inventories	-564	-184	-1,785	1,299	210	-3,000	-300
Accounts payable	28	-343	1,085	-1,418	1,417	1,000	500
Cash flow from investing activities	-1,561	-1,440	-2,537	-994	-441	-1,500	-2,000
Tangible fixed assets	-1,341	-1,287	-1,691	-844	-332	-1,300	-1,800
Intangible fixed assets	-56	-163	-140	-135	-374	-200	-200
Free cash flow	-1,379	-319	-3,172	603	1,569	-2,940	300
Cash flow from financing activities	1,330	1,070	2,752	295	127	1,747	-520
Long-short term borrowings	1,715	1,037	2,964	451	-2,007	2,000	-200
Common stock issuance	0	0	0	0	2,289	0	0
Common stock repurchases	-225	194	-25	0	0	0	0
Cash dividends paid	-154	-150	-153	-155	-153	-253	-320
Cash and cash equivalents at end-term	1,753	2,505	2,083	2,984	4,679	3,486	3,266

NOTE: Forecasts are by analysts.

What the figures from existing stores tell us

It would not be correct to view the growth rate in the Company's existing stores based on a separation of the number of visitors from sales per customer. Analysis of the Company's monthly figures is not as simple as that of conventional merchandise stores. This is because the number of

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service members grows cumulatively, and these members contribute to monthly service sales. However, since products have actually been sold, sales figures cannot be analyzed based simply on member numbers and Average Revenue per User (ARPU), as is done for service sales of telecommunication carriers. That said, it cannot be denied that service sales owing to this cumulative effect have made a greater contribution to the Company's favorable performance.

Looking at the quarterly-based sales results posted by the Company in the past, when it engaged mainly in products sales, sales tended to be not bad during the first quarter, decline in the second quarter and become favorable in the third and fourth quarters. This seasonal trend is now disappearing because the Company has shifted its focus from selling products to selling services. Thus, the Company's performance should become more stable.

Performance for FY2014 has remained strong

For the cumulative third quarter of the term ending March 2015, sales decreased 0.4% YoY while ordinary income increased 43.8% YoY. Gross profit from product sales was also steady due to the effects of Windows XP until the second quarter, but sales of PCs lost momentum from the third quarter. On the other hand, sales of services have continued to be strong, and the conventional pattern of profits greatly increasing despite sluggish total sales growth has continued.

The same trend will also continue in the fourth quarter, and the Company is expected to continue its strong performance. However, there are variable factors. The Company will compete with the shops of mobile phone carriers for the purchase and resale of NTT's optical fibers. Sales promotion expenses vary depending on how the Company deals with this issue, and this could represent a variable factor arising from cost.

The Company revised its initial plan for operating income during the term ending March 2015 upward by about 300 million yen when the second quarter was over. It now expects to post 53,000 million yen (down 1.5% YoY in sales, 3,100 million yen (up 34.2% YoY) in operating income, 3,200 million yen (up 32.7% YoY) in ordinary income, and 1,960 million yen (up 26.1% YoY) in net income. These goals are sufficiently achievable.

Favorable sales have moved into a new phase—"Just Show up and Buy a New PC"

Service sales have remained firm. In the past, it has been a common pattern for the sale of devices to lead to the sale of premium services. After premium services have apparently improved, service sales have increasingly contributed to the profit growth.

From now on, FVNO will enter the market, in addition to MVNO. Although it is still in the phase of seeding, the Company will enter a different phase with the addition of new services. Thus far,

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people have visited PC DEPOT only when they need something related to PCs; however, from now on, they may visit PC DEPOT for any types of Internet devices, including smartphones, tablets, printers, and fax machines.

Under such conditions, the key is the cloud. The Company will launch full-fledged “Comprehensive Cloud Services.” Now that stable server operation has been secured, the Company will be able to provide new services going forward. One of the representative new services is “Just Show up and Buy a New PC.” The Company has begun to provide its premium members with an automatic data backup service for Internet devices such as PCs and backup data reproduction services at store counters using a patent-pending proprietary comprehensive cloud system.

As data on PCs are backed up, when you buy a new PC, you don’t need to bring your own PC to the store to take data from it. It can be easily achieved by general mirroring service (saving the same data to the cloud) offered by the Company for PCs. The data of smartphones are also saved through PCs to the cloud.

Investments in such services do not necessitate much money. It is not a big investment compared to that involved in the creation of a new store. The Company can expand this service gradually.

It will be difficult for other companies to offer the same service. The Company has enhanced the PC Clinic functions at its stores. It has trained and developed engineers with expertise in PCs, smartphones, and the Internet. We have already created a mechanism through which we can make profits. Even if mass home electronics retailers try to imitate our model, it is impossible for them to develop the same functions by deploying such personnel at their stores.

The SIM free service will be available from May. The service costs 2,000 yen per month, and it costs 5,000 yen with an optical fixed line service. A certain contribution to profits can be expected from the second or third year if these services grow.

New Store Openings and Shift to SLP Stores

(FY)	(Stores)												
	2011 3Q	2011 4Q	2012 1Q	2012 2Q	2012 3Q	2012 4Q	2013 1Q	2013 2Q	2013 3Q	2013 4Q	2014 1Q	2014 2Q	2014 3Q
PC DEPOT stores													
Directly managed	1	0	2	1									1
SLP stores (new)													
SLP stores (renovated)								1	1	2	3	4	1
Subsidiaries	1	4	2										2
PC Clinics													
Directly managed	6	3	1	2									2
Total	8	7	5	3	0	0	0	1	1	2	3	4	6

(Note) SLP stores (renovated) indicate the number of SLP stores opened by renovating and changing directly managed PC DEPOT stores.

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Working capital is on the increase.

In the term ending March 2016, a certain amount of sales can be expected from optical line services, which will contribute to service and hardware sales. Factors such as new-store and renovation effects will also boost sales. Profit will continue to show a substantial increase as a result of contributions from service sales.

Annual service sales are on pace to reach 20 billion yen, and in terms of value, support for premium members accounted for the largest percentage of service sales, followed by technical fees for services such as repair and communications line service fees such as MVNO and FVNO, in the stated order. The percentage of magazine and other content services is low, but sales of such services are growing at the fastest pace.

The policies are to (1) step up sales of smart devices, (2) work to develop solutions that combine content and services, (3) develop and provide service products that enhance safety and security, and (4) concentrate on opening SLP stores by renovating existing stores and establishing new ones.

In the term ending March 2016 as well, the Company will be able to further improve its profit ratio by continuing to move in the same direction. For the term ended March 2016, the Company will increase sales to 55 billion yen, ordinary income to 4.1 billion yen (up 28% YoY), and the ordinary income ratio up to 7.5%.

President Nojima has become more confident that the Company is on track to achieve its medium-term goal of ordinary income representing 7% to 8% of total sales based on a series of changes in the business model. ROE will also exceed 15%. In fact, in terms of profitability growth, the gross profit margin for sales of goods is also improving. As the burden of selling goods in sales operations decreases, earnings from increased sales of services will become even more evident. In addition, the average sale per customer is increasing steadily. With these two trends developing as planned, the Company will soon be able to achieve its target of an operating profit that is 8% of total sales. This will uniquely position the Company as a service company supporting personal communication in a very real sense.

5. Evaluation:

The Company continues to innovate in changing store formats.

ROE has improved significantly through the transformation of the profit structure

The Company does not need to hurry to open new stores if its existing stores meet service demand, allowing it to make a profit in the overall operations, and it will be able to achieve

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double-digit growth by opening new stores steadily at a rate of three to four stores a year. By increasing sales for existing stores, the Company is most likely to attain the goal of 55 billion yen in sales and 4 to 5 billion yen in ordinary income. ROE will exceed 15%.

The Company is working to make its customers members of its service system, and is focusing attention on how to heighten this stock effect. Customers of the service system exhibit several usage patterns: some users own several pieces of hardware, while others subscribe to the service system so that their family members can use it. By making these users members of its service system, the Company will be able to increase the unit price of service per customer. There is ample room for the Company to come up with new ideas to attain this goal in the future. Examples include providing multiple services consisting of online magazines and music content as well as pursuing ease of use for security by offering a new combination of services.

It was in 2005 that the Company took the decision to shift its revenue source from selling PCs to providing services. Eight years after that, profits have caught up with the business model shift. Will the Company's business model remain as a niche presence or evolve into a new major move? We want to look forward to the next strategy proposed by President Nojima.

The reorganization of mass home electronics retailers has enabled some of them to benefit from lower procurement costs and thereby reduce their selling prices to customers, affecting the whole market. Price competition between FVNO and telecommunications carriers will intensify. On the other hand, the Company's business model is to generate service sales in a consistent manner by selling Internet devices and other hardware. President Nojima believes that PC DEPOT stores can coexist alongside major electronics retailers in different market segments, keeping a certain distance.

In the future, there will also be room for the Company to increase its membership from several hundreds of thousands to 1 million or more as well as to raise the monthly fee unit price from several thousand yen to 5,000 yen or more by combining and diversifying service menus. If this happens, achievement of the goal of 10 billion yen in ordinary income (an ordinary income ratio of 10% to 15%) will be in sight. Market watchers can place great expectations on the Company as it is highly likely to enter this new phase of development.

The Company's efforts to shift to a stock-type profit structure based on service sales have evidently borne fruit. And in FY2014, it could see its ROE reach 13%. This shift in business model can be favorably evaluated, and the effects of new aggressive sales plans such as the development of many SLP stores can also be expected. Therefore, the Company is rated A. (Please refer to the front page for an explanation of corporate ratings.)

The number of shareholders decreased from 2,205 at the end of March to 1,904 at the end of September. It seems that institutional investors are increasing their holdings. The Company is

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slightly short of the requirement for listing on the first section of the Tokyo Stock Exchange (TSE). It split its shares at a ratio of 1:1.5 in January 2015, which will result in some increase in the number of shareholders.

Based on its stock price of February 27 of 926 yen, PC DEPOT has a PBR of 2.38, an ROE of 13.2% and a PER of 17.9, with a dividend yield of 0.9%. Since the split, the share price has moved up significantly. However, there are questions to be asked: What kind of era will follow the current PC era? Will the Company be able to compete against consumer electronics superstores? With regards to this competition, the Company can demonstrate a unique presence. Meanwhile, its strategy of making profits through providing IT solution services and positioning its stores in a market segment to coexist alongside mass home electronics retailers has started to contribute to earnings. Against this background, more and more market players will upwardly reevaluate the Company's corporate value as its earnings grow.

Furthermore, the Company started to publish monthly report on risk management matters in July 2014. This indicates it has adopted a stance of reviewing its management system and disclosing the results of such reviews appropriately while taking global trends into consideration. Such information disclosure efforts will be highly evaluated.